

MINUTES

BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204

May 18, 2001

Trustees Present

Richard Doermer, Chair
Nancy Turner, Vice Chair
Jonathan Birge
Teresa Ghilarducci
Steven Miller

Others Present

Mike Gery, Executive Assistant to the Governor
Diana Hamilton, Special Liaison to the Governor for Public Finance
Mary Beth Braitman, Ice Miller
Stephanie Grieser, William M. Mercer Investment Consulting
Richard Boggs, Burnley Associates
Karen Franklin, National City Bank
Tom Scheibelhut, Cost Effectiveness Measurement, Inc.
E. William Butler, PERF Executive Director
Patricia Gerrick, PERF Chief Investment Officer
Jim Osborn, PERF Program Director
Diann Clift, PERF MIS Director
Patrick Lane, PERF Director of Communications
William Hutchinson, PERF Division Director, Pension Administration
Tom Parker, 1977 Police & Fire Fund Director
David Yeater, PERF Controller
Linda Stahl, Recording Secretary

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Agenda of May 18, 2001 Meeting
- B. Minutes:
 - April 20, 2001

A quorum being present, the meeting was called to order.

1. MINUTES APPROVAL

MOTION duly made and carried to approve the Minutes of the April 20, 2001 meeting of the Board of Trustees.

Proposed by: Teresa Ghilarducci

Seconded by: Jonathan Birge

Votes: 5 for, 0 against, 0 abstentions

2. BOARD DISCLOSURES

Richard Doermer – Bank One stock ownership

3. ADMINISTRATIVE

CEM Report

The Board previously agreed to participate in an analysis conducted by Cost Effectiveness Measurement (CEM) for the 2000-2001 cycle. CEM has been benchmarking the investment side of pension businesses for ten years. Three years ago they began looking at the administration of the pension business, which was the focus of today's report. Various data was collected by PERF and provided to CEM. That data was then filtered into an analysis prepared for each of the public funds in the CEM universe of funds.

Tom Scheibelhut, representing CEM, was present to report on the findings of that analysis as they relate to PERF (report on file). The focus of the report was on understanding and quantifying how seven factors drive costs, those factors being services provided, service levels, quality, plan complexity, volumes (economies of scale), cost environment, and systems. The heart of the analysis compared costs, volumes, complexity, and service levels to PERF's peers for the following administrative activities: paying pensions, pension inception, pension estimates, member counseling, member telephone calls, communication to members, collections and data maintenance, refunds/terminating payments, service credit purchases, disability pensions, governance and financial control, plan design, supplemental benefits, and major projects and non recurring items.

One of the issues raised within the report had to do with the lack of employer communication. Following some discussion of this issue, it was the consensus of the Board that this was a matter of utmost priority. Therefore, it was their recommendation that PERF management staff put together a plan to communicate to each of the employers the efforts underway to improve PERF services in the future. Additionally, staff was asked to meet personally, prior to the June Board meeting, with each of the five largest PERF employers and convey that same

information. An update on the status of this effort was requested for all upcoming Board meetings.

SIRIS Update

Diann Clift reported that the SIRIS project is moving along quite well. Decreased levels of productivity have been experienced in Stage 1, which is to be expected with the transition to a new computer system. On Monday, May 21, a meeting will be conducted to determine all outstanding issues in an effort to ensure they are adequately addressed. The design and build of Stage 2 has begun, and that part of the new system is due to roll out in approximately one year.

Backfile Conversion

The backfile conversion project is now five weeks underway and is moving along very well. To date, some 450,000 documents have been shipped offsite for imaging.

4. INVESTMENTS

Guaranteed Fund Rate

The Board undertook discussion of the annual establishment of an interest crediting rate for the Guaranteed Fund. Until such time as another complete assessment of the impact to the Fund has been completed, the Trustees felt the policy of setting the Guaranteed rate at 1% plus the actuarial rate should be continued. Thus,

MOTION duly made and carried to set the Annuity Savings Account Guaranteed Fund Rate for the fiscal year ending June 30, 2002 at 8.25%.

Proposed by: Teresa Ghilarducci

Seconded by: Nancy Turner

Votes: 5 for, 0 against, 0 abstentions

Securities Lending

Stephanie Grieser, William M. Mercer, summarized Board discussion undertaken at its April meeting concerning the matter of securities lending. Specifically, Mercer's review of the program indicated there are in place a number of strategies for managing and reducing risk to the program. The key issue, however, is monitoring the program to make sure the Fund's exposures are not exceeding the risk parameters established. The biggest way to improve the comfort level is just to increase the oversight and make sure that exposures, which can vary significantly on a daily/weekly/monthly basis, are being monitored. Secondly, direct contact with both Chase and Bank One should be established to ensure a

comfort level with the way in which they structure their programs. Mercer will prepare for the Board a letter of recommendation with respect to this issue.

Investment Policy Changes

Section 8 of the Restatement of Investment Policy contains very specific requirements that Investment Managers must meet. Several managers have alternative insurance arrangements that do not fit cleanly within the language set forth in the Policy. For example, the Policy requires fiduciary liability insurance coverage “in which the Fund is a named insured party.” Recently, two managers have indicated that they are unable to name PERF as an insured on their fiduciary liability coverage because of the structure of their insurance coverage.

Specifically, many Investment Managers provide for fiduciary liability insurance under a so-called “blanket policy” that covers parents and/or subsidiaries of the Investment Manager. Typically, these policies have high limits, but do not permit specific insureds to be named on the policy. Another manager has indicated the ability to name PERF as a “holder” but not a “named insured” to their fiduciary liability coverage.

Thus an amendment to the Investment Policy was proposed for clarification of these issues. Following Board discussion,

MOTION duly made and carried to amend the Investment Policy as follows:

SECTION 8. INVESTMENT GUIDELINES

- Fiduciary Liability Insurance. Each Investment Manager will obtain fiduciary insurance coverage, in which the Fund is a named insured party, with a minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually provide written evidence of such coverage. **The Executive Director may approve alternative fiduciary liability insurance arrangements, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.**
- Errors and Omission Coverage. Each Investment Manager will obtain errors and omission coverage, with minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage. **The Executive Director may approve alternative errors and omissions coverage, if in the judgment of the Executive**

Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- Fidelity Bond. Each Investment Manager will obtain a fidelity bond, with a minimum of \$3 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage. **The Executive Director may approve alternatives to a fidelity bond, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.**

Proposed by: Jonathan Birge

Seconded by: Steve Miller

Votes: 5 for, 0 against, 0 abstentions

Other amendments for clarification of the guidelines for international equity portfolios were proposed. Following Board discussion,

MOTION duly made and carried to further amend the Investment Policy as follows:

SECTION 8. INVESTMENT GUIDELINES

Specific Guidelines for International Equity Portfolios

- Core Active Management
 - Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and primarily listed **or traded** on foreign exchanges **and over-the-counter markets** ~~that substantially matches the composition and characteristics of the~~ **countries within the market index benchmark or countries announced to be added to the benchmark index within 180 days of purchase. In no event may the portfolio hold issuers which are only listed or traded on a United States Exchange. Convertible securities, rights, and warrants may not be purchased outright on the market, but may be held, sold, or exercised as investment considerations dictate if received as part of a corporate action. Investments in U.S. dollar denominated foreign securities, ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) are permitted. However, portfolios are expected**

to vary in terms of number of securities held and from time to time vary from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector weighting, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.

- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. **For the purpose of the above limitation, partially paid shares and when-issued securities will not be considered leverage and will be permitted.** Assets held in emerging markets (as defined by MSCI) may not exceed 20% of the portfolio, **measured at the time of purchase**, unless approved in advance and in writing by the Board. **144A securities may be purchased provided that the issuer of such securities also has other securities listed on a non-U.S. exchange and traded abroad. No other private placements will be permitted.**
- Benchmark: **MSCI All Country World Index Free ex-USA ACWI Index ex US**
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error **will may** be greater than ~~that of "Core Enhanced Index Management" portfolios~~ **300 basis points.**
- Currency Hedging: Currency hedging is **permitted** at the ~~Contractor's investment manager's~~ discretion. **Cross hedging of currency is not permitted.**

Proposed by: Steve Miller

Seconded by: Jonathan Birge

Votes: 5 for, 0 against, 0 abstentions

5. POLICE & FIRE

Because PERF administers the State Employees' Death Benefit Fund, Board action was requested in the matter of Ronald G. Imel. Mr. Imel was employed by the Indiana Department of Transportation (INDOT), Madison Subdistrict, as a mechanic. On March 13, 2001, Mr. Impel was riding as a passenger in an INDOT dump truck that was struck by a second truck that crossed the center line. The INDOT dump truck overturned, and Mr. Imel was killed immediately.

MOTION duly made and carried to approve a line-of-duty death benefit in the amount of \$50,000 in the matter of Ronald G. Imel.

Proposed by: Teresa Ghilarducci

Seconded by: Jonathan Birge

Votes: 5 for, 0 against, 0 abstentions

LEGISLATION & LEGAL

Legislative Update

Mary Beth Braitman reviewed for the Board those pieces of legislation impacting PERF that were enacted into law during the post recent session of the General Assembly.

➤ House Bill 1193

Requires that provisions be adopted in a defined contribution plan for the purpose of converting unused excess accrued leave to a monetary contribution for employees of a state agency. Provides a procedure for members of PERF/TRF to purchase up to two years of military service credit to the extent service credit is not granted for that time under existing PERF/TRF provisions. Requires a member to have at least ten years of creditable service in PERF/TRF before the member may use the military service credit. Also requires that the PERF Board adopt rules for making loans to a participant in the Legislators' Retirement System.

➤ House Bill 1600

Directs the PERF Board of Trustees to transfer the entire value of the assets in PERF attributed to a county-funded hospital that is sold to a private entity to the fund account of the county where the hospital is located and to add the transferred amount to the county's fund account. Provides that the county assumes all of the assets and liabilities attributable to the hospital's account, except for any liability for employer contributions that arose before January 1, 2001. Cancels the liability of the hospital for employer contributions that remain unpaid on July 1, 2001.

➤ House Bill 1667

Specifies that a retired member of the Legislators' Retirement System who is receiving a salary from the State may not also receive a retirement benefit. Provides that the PERF Board shall allow a member of the Legislators' Retirement System to make an investment selection or change any existing investment selection at least once each quarter.

➤ House Bill 1815

Provides a 1% cost-of-living adjustment to members of PERF/TRF (or their survivors or beneficiaries) who retired or were disabled before July 2, 1999. Provides a supplemental “thirteenth check” benefit to retired teachers and certain retired public employees (or their survivors or beneficiaries) on November 1, 2001, and on November 1, 2002. Specifies that the PERF/TRF Board shall allow a member to make an investment selection or change any existing investment selection at least once each quarter. (Previous law provided that the allocation could be changed only one time every 12 months.) Increases the percentage used in computing retirement benefits under the Prosecuting Attorneys’ Retirement Fund.

➤ Senate Bill 107

Provides that members of the PERF/TRF Boards may participate in a meeting of the Board using any means of communication that permits all other Board members and the public to simultaneously communicate with each other during the meeting. Provides that PERF/TRF fund records of individual members and membership information shall be treated as confidential, except for the name and years of service of a fund member. Specifies that the additional annuity savings account contributions that may be made by a PERF/TRF member may not exceed 10% of the member’s compensation. Adds emergency medical service providers employed by political subdivisions and not otherwise eligible for a special death benefit to the definition of “public safety officer” for the purpose of providing a special death benefit. Reimposes an annual earnings limit on a retired member of PERF/TRF who has not attained the Social Security normal retirement age for unreduced benefits. Provides that if such a retired member is reemployed in a position covered by PERF/TRF and earns more than \$25,000 in a year, the member’s retirement benefit is suspended. Provides that one member of the PERF Board must be a member of a collective bargaining unit of State employees represented by a labor organization or an officer of a local, national, or international labor unit that represents State employees. Makes a number of administrative changes in the Police & Fire Fund.

➤ Senate Bill 165

Establishes charter schools and provides that employees of such schools will remain in PERF for non-certified positions and in TRF for certified positions.

➤ Senate Bill 260

Provides that distributions from the pension relief fund to local units of government shall be made in a particular year based on estimates of pension liabilities in the ensuing year. Requires that the PERF Board maintain separate accounts for each unit of local government into which a unit may: (1) make

deposits; and (2) withdraw one time each year all or a portion of the unit's balance in the account to pay pension benefits under the old police and firefighter pension funds.

➤ **Senate Bill 524**

Provides that, in calendar years 2002 through 2012, interest on the public deposit insurance fund (after certain deductions for operating expenses) is to be distributed to units of local government in proportion to payments made by each unit for benefits under the "old" police and firefighter pension plans.

Legal

Jim Osborn apprised the Board of the fact that an EEOC complaint had been filed against PERF by an employee who had worked for the Fund through a temporary agency. Appropriate action has been taken in the matter.

BENEFITS

New Units & Enlargements

MOTION duly made and carried to accept the following new units and enlargements:

New Units

1719 - Center Township
1720 - Helt Township
1721 - Lake Township
1722 - Markle Public Library
1723 - Winfield Township
1724 - Brown County Public Library
1725 - Clay-Owen-Vigo SWMD
1726 - Indianapolis Airport Authority
1727 - Union Township

Enlargements

493 - New Carlisle-Olive Twp. Public Library
511 - Mt. Vernon MSD
522 - School Town of Munster
530 - Portage Township
622 - Orange County
631 - Wayne County
650 - North Lawrence Community Schools
779 - Penn Township
821 - Bluffton-Harrison MSD

- 836 - Shenandoah School Corporation
- 865 - City of Angola
- 924 - Pipe Creek Township
- 955 - Twin Lakes Regional Sewer District
- 1021 - East Noble School Corporation
- 1077 - Starke County
- 1134 - Vermillion Community School Corp.
- 1135 - Jay School Corporation
- 1164 - Anderson Township
- 1182 - Gas City
- 1243 - City of Logansport
- 1257 - Nineveh-Hensley-Jackson School Corp.
- 1284 - Town of Fortville
- 1290 - City of Madison
- 1440 - Indianapolis Public Transportation Corp.
- 1476 - Town of Millersburg
- 1494 - City of Loogootee
- 1513 - North West Hendricks School Corp.
- 1545 - Town of Odon
- 1606 - Town of Dillsboro
- 1611 - Ripley County
- 1641 - MSD Boone Township

Proposed by: Jonathan Birge

Seconded by: Nancy Turner

Votes: 5 for, 0 against, 0 abstention

NEXT MEETING

The next meeting of the Board, formerly scheduled for June 15, was rescheduled for June 26. The July 13 meeting of the Board was cancelled.